VZCZCXRO2893
RR RUEHDU RUEHJO RUEHMR
DE RUEHTO #1594/01 3470516
ZNR UUUUU ZZH
R 130516Z DEC 05
FM AMEMBASSY MAPUTO
TO RUEHC/SECSTATE WASHDC 4720
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 03 MAPUTO 001594

SIPDIS

SIPDIS

AF/S FOR HTREGER AND JMALONEY
JOHANNESBURG FSC FOR RDONOVAN
JOHANNESBURG TDA FOR DSHUSTER
USDOC FOR RTELCHIN
MCC FOR SGAULL
USAID FOR AA/AFR AND AFR/SA

E.O. 12958: N/A
TAGS: ECON EAID EINV ETRD MZ
SUBJECT: MOZAMBIQUE: NOVEMBER ECONOMIC DIGEST

REF: MAPUTO 1449

MAPUTO 00001594 001.2 OF 003

¶1. This is a brief summary of significant economic developments in Mozambique during November 2005. We provide it as a supplement to our other reporting. The items discussed are:

¶2. Bank of Mozambique Denies Forced Conversion Rumors
¶3. Mozambique Moving Towards Tax Process Reform
4-5. Ministry Warns Against Illegal Land Sales
¶6. Fuel Prices Increase a Second Time in Five Weeks
7-8. Mozambique's ENH to Own Stake in Gas Pipeline
9-10. Mozambique Signs Tourism Agreement with Portugal
¶11. Currency Revision Bill Approved
¶12. Cahora Bassa Now Mozambique's

Bank of Mozambique Denies Forced Conversion Rumors

¶2. Amidst exchange rate volatility and a recent tightening on the amount of foreign currency that can be withdrawn from personal accounts per week, rumors have been circulating that the Bank of Mozambique intends to force conversion of foreign currency accounts into meticais. While the Bank of Mozambique categorically denied these rumors at the start of November, there continues to be some concern on the street. Unease over the fluctuating exchange rate spilled into the National Assembly, with opposition parliamentarian Maximo Dias accusing the Bank of Mozambique of "speculating on the dollar" during a statement to the Assembly of the Republic in late November. Finance Minister Manuel Chang rejected the accusation, stating that the GRM has no intention of returning to a fixed exchange rate.

Mozambique Moving Towards Tax Process Reform

¶3. The first reading of Mozambique's proposed tax process reform bill unanimously passed its first reading in the National Assembly this month. The bill, which defines what constitutes a tax crime and sets penalties for violations, passed with little controversy. Under the proposed bill, fines for serious offenses reach 100 billion meticais (approximately 3.6 million USD), with the possibility of prison terms. The only debate centered on these significant

penalties. According to opposition party member Maximo Dias, the "unrealistically" high fines open the door for corruption between tax violators and officials. Finance Minister Chang focused on the proposed law's creation of a system of rights and duties between the taxpayers and the tax administration. Under the new law, taxpayers who feel they are overcharged will have a clear right of appeal and will be reimbursed if they successfully prove their case.

Ministry Warns Against Illegal Land Sales

¶4. In a November 17 public statement signed by the Mozambican Minister of Agriculture, Tomas Mandlate, the GRM warned the public against the illegal sale of land. The statement came in response to recent public advertisement of "land sales" in the media and on the Internet. The Mozambican constitution specifically prohibits the sale or alienation of land; all land in Mozambique is state property, with individuals and business possessing use rights.

¶5. Inclusion of a clause regarding collaterization of these land use rights in the GRM's draft Action Plan for the Reduction of Absolutely Poverty (PARPA II) sparked heated public debate on November 23 at a meeting of the "Poverty Observatory." Civil society groups objected to inclusion of the clause on the basis that the issue had never been raised in preparatory public hearings in the districts and provinces. As a result of this objection, the GRM agreed to remove the land collaterization clause from the current PARPA II draft. CTA and other private sector organizations have objected to removal of the clause, stating that collaterization of land rights is critical to commercial agriculture development.

Fuel Prices Increase a Second Time in Five Weeks

¶6. On November 24 the GRM increased fuel prices for the second time in five weeks. This increase raised jet fuel prices by 19.1 percent, diesel by 11.7 percent and petrol by 6.8 percent. The price of kerosene, the "fuel of the poor" also increased by 10 percent, while LPG cooking gas rose by 7.6 percent. Only the price of fuel oil remained stable. The Ministry of Energy supported its decision to raise fuel prices again, citing the increase in import prices of all petroleum products other than fuel oil. Media reports also blame the devaluation of the metical, which lost 11.1 percent of its value against the dollar over the last two months. Fuel imports are denominated in dollars and the GRM is supposed to adjust fuel prices whenever the import price in meticais moves by more three percent, as well as whenever there is a change in the fuel tax. The adjusted prices reflect only the cost where fuel is unloaded -- Maputo, Matola, Beira and Nacala -- and do not include the transportation costs retailers may add to the final fuel price.

Mozambique's ENH to Own Stake in Gas Pipeline

¶7. The South African petrochemical, SASOL, owns the gas pipeline from Inhambane province to South Africa, however Mozambique's publicly owned National Hydrocarbons Company (ENH) has an option to purchase up to 25 percent of the pipeline company's stock. As the result of loan funding from the European Investment Bank (EIB), ENH will now exercise its option and acquire 11 percent of the pipeline. ENH is exercising its option through a subsidiary, Mozambique Pipeline Company (CMG), which is 80 percent owned by ENH and 20 percent owned by IGEPE, a government entity handling state shareholdings. At the November 15 signing of the loan agreement, Issufo Abdullah, chairman of ENH, stated that negotiations with other financial institutions continue in an

attempt to raise money for the remaining 14 percent of the pipeline company.

¶8. The loan, valued at 35 million Euros (approximately 42 million USD) is interest-free and scheduled to be paid back out of dividends over the next 20 years through a 50-50 profit-sharing plan between EIB and ENH. Should no dividends (profits) result from the pipeline, the profit-sharing plan, and therefore the payback, would be postponed. According to Abdullah, the plan is to privatize CMG by publicly selling ENH's 80 percent to Mozambican investors.

Mozambique Signs Tourism Agreement with Portugal; Record Numbers Visited in 2004

¶9. On November 26, Prime Minister Luisa Diogo said that 711,000 tourists visited Mozambique in 2004. Mozambique now has 5,030 hotel and tourism establishments, up from 2,075 in ¶1990. The tourism industry employs more than 32,000 people, up from 19,600 in 1990. According to Diogo, these numbers represent Mozambique's growth in tourism, an industry the GRM seeks to promote with its six national parks, six conservation reserves and 12 hunting areas.

¶10. The Mozambican tourism industry received an additional boost this month from the signing of a tourism agreement with Portugal. The memorandum, signed on November 29 in the tourist resort of Bilene, commits Portuguese technical assistance in creating a new set of regulations to enhance Mozambique's tourism law.

Currency Revision Bill Approved

¶11. A bill proposed to simplify the country's currency passed its second and final reading in the National Assembly and is awaiting signature by President Guebuza. The bill would simplify Mozambique's currency by removing three zeros. Starting January 1, 2006, the "new family" of metical will be unveiled and one new metical will equal 1,000 old meticais. The name of the currency will remain unchanged, and old notes and coins will remain legal tender for a transition period.

Cahora Bassa Now Mozambique's

¶12. Declaring it a "second independence," President Guebuza lauded the recent Memorandum of Understanding to transfer control of the Cahora Bassa dam to Mozambique as a "historic landmark" (reftel). Under the agreement, the Portuguese state will transfer control of Cahora Bassa Hydroelectric (HCB), the dam operating company, in exchange for 950 million USD. Mozambique will then hold 85 percent of HCB, with Portugal maintaining control over the remaining 15 percent. According to reports, the terms of the agreement state that HCB must pay Portugal 250 million USD, in two installments, during 2006. The first installment is due in January, the second in October. In addition, the remaining 700 million USD must be paid to Portugal within 12 months of the signing of the final negotiations - expected to happen before the end of this year. Should exceptional circumstances arise, HCB may reportedly extend this payment period to 18 months, provided 350 million USD is paid on time under the terms of the agreement. The 700 million USD will have to be raised by HCB (Note: The GRM will have no contingent liability as the as the 700 million USD will be borrowed by HCB, walled off from the GRM. End note.)
La Lime